

## CAPITAL/FIXED ASSET POLICY

Capital outlays by a local government for long term use in the provision of goods and services to the citizens are referred to as capital assets or fixed assets. Examples include land, buildings, infrastructure, vehicles, equipment and improvements other than buildings. Once the purchase is completed, it is recorded on the balance sheet as a capital asset and annual depreciation expenditure is recognized over its estimated useful life.

This policy establishes uniform and consistent standards for the purchase, control, disposal, and depreciation of capital assets acquired and owned by the City of Belle Isle.

Proper reporting, classification and control of capital assets by employees will ensure that such assets are efficiently utilized and protected against damage and loss. The policy outlines the procedures necessary to make certain that capital asset transactions are initiated, authorized and approved by the appropriate level of management to protect against unnecessary purchases, improper disposal or transfers before the life expectancy of the asset is met. An inventory of capital assets, including the location and value of the asset, will be maintained by the Finance Department and the department to which the asset is assigned.

The City Manager's Office is responsible for disposal of all property in accordance with the Belle Isle Municipal Code Section 2-221 to 2-226.

### Definitions

- **Capital/Fixed Asset:** A capital/fixed asset is a tangible or intangible item with an original monetary unit cost of \$5,000 or more and a useful life greater than one year. Such items are recorded on the balance sheet and depreciated based on life expectancy. Examples include land, building, infrastructure, vehicles, equipment and improvements other than buildings.
- **Construction in Progress:** A temporary grouping of asset costs being built or constructed, that are not anticipated to be completed by the end of the current fiscal year. Project and funding are restricted and upon completion of construction, it is classified as a capital asset in the appropriate category listed below.
- **Land and Easements:** Includes all land and easements purchased by or donated to the City of Belle Isle. Donated land and easements is recorded at its appraised value at the time of acquisition. Related costs such as legal fees, filing and excavation costs, property taxes, and the like, that are incurred to put the land and easements in condition for its intended use are capitalized and included in the cost of the land and easements.
- **Buildings/Additions and/or Improvements:** Includes all City owned buildings and all permanently attached fixtures. If buildings are donated to the City, the value is recorded at its appraised value at the time of acquisition. Related costs such as attorney's fees, architect's fees, inspection fees, and building permits are included as part of the total cost.

- Vehicles, Machinery/Equipment, Furniture/Fixtures: All tangible items owned by the City of Belle Isle that are useful in carrying on daily operations. Examples include vehicles, machinery, equipment, computers, software, tools, and furniture and fixtures. Related costs such as delivery charges, permanent attachments that are not removable, and setup charges are included in the cost. Equipment donated to or seized by the City of Belle Isle is recorded at estimated value.
- Depreciation: A systematic allocation of the cost of a capital asset over its estimated useful life.

#### Capital/Fixed Asset vs. Expenditure

City purchases are either current year expenditures (consumed within one year) or capital expenditures (recorded as capital assets on the balance sheet for financial reporting purposes). Purchases with extremely short useful lives and small monetary value are properly reported as an “expenditure” or “expense” in the period in which they are acquired. This policy does not cover those items.

Capital outlays that benefit current and future years are properly classified as capital assets but must meet the following criteria established for inclusion in the capital outlay category. Please note that capital assets received by means of donation or grants follow the same criteria. Also, the final determination of classification will be based on accounting principles and financial reporting requirements.

1. The capitalization threshold for each individual item is \$5,000.
2. The estimated useful life following the date of acquisition is greater than one year.
3. The item is not consumed, unduly altered, or materially reduced in value immediately by use.
4. The capitalization threshold should be applied to individual assets rather than to groups of assets (e.g. desks, tables, chairs, software, and so on).
5. Capital assets are recorded at historical cost and should include all charges necessary to place the asset in its intended location (freight charges) and charges necessary to place the asset in its intended condition for use (installation and site preparation charges).
6. The historical cost of a capital asset should include the cost of any subsequent additions or improvements but exclude the cost of repairs, as these costs are expensed. An addition or improvement, unlike a repair, either enhances a capital asset’s functionality (effectiveness or efficiency), or extends a capital asset’s expected useful life.

*The following criteria are excluded from the capital outlay category.*

1. Items that require regular replacement due to rapid wear.
2. Items destroyed after one-time use.

3. Items installed or added to an existing capital asset where such additions are required merely to return the item to a functioning product, for example, engine overhauls, replacement of lens in camera of closed circuit TV units, or adding/replacing a tool box to a pickup truck.

#### Purchase of Capital/Fixed Assets:

The annual budget is approved by the City Council and sets spending limits for capital outlays in each fund. The Finance Department sets the internal processing controls for budget, purchasing and accounting purposes and the City's Purchasing Policy sets the guidelines for compliance with applicable laws and regulations. These internal controls segregate job duties to ensure that purchases are budgeted, initiated, authorized and approved by appropriate personnel and communicated to City management and the public.

Departments must work with the Finance Department on all capital assets given directly to the City or received through donation or grant funding, whether purchased directly by the City and reimbursed by the agency or received directly from the Agency because special financial reporting may be required.

#### Recording and Control of Capital/Fixed Assets:

The Finance Department will maintain the Fixed Asset application and is responsible for accounting, depreciation, inventory, and financial reporting by following generally accepted accounting principles for local governments including those principles prescribed by the Governmental Accounting Standards Board (GASB).

**New Purchases:** Employees must follow the Purchasing Policy when making capital purchases. Limits are set on employee authorities to approve and make purchases. After the purchase order is issued the employee is authorized to proceed with ordering the item. When the item is received and meets the purchase order specifications, the department must notify the Finance Department to process payment to the vendor once the invoice is received. It also moves the item into the City's Fixed Asset record keeping software. The Finance Director will notify the department for additional information required to complete the fixed asset record. Additional information may include serial/model number, useful life and location of the asset. (see Capital Asset Worksheet).

**Transfers:** When capital assets are transferred between departments (i.e. the Stormwater Fund gives a truck to the General Fund) the departments should notify the Finance Director by completing a Capital Asset Worksheet. The Finance Director will then adjust the capital asset record for location and change balance sheet and depreciation expenditure accounts to the department controlling the asset.

**Donations/Gifts:** When the City receives fixed asset gifts or donations departments should complete a Capital Asset Worksheet and submit it to the Finance Department so the item can be recorded in the financial records.

**Inventory and Control of Capital Assets:** It is incumbent upon department directors to maintain adequate control over all of a department's assets, including its fixed assets, to minimize the risk of loss

or misuse. Each department is to have designated staff responsible for inventory and control of fixed assets. At no time should capital assets be used by employees for personal gain.

**Audits and Reporting:** The Finance Department is responsible for conducting periodic audits to validate location and condition of all capital assets.

**Disposal:** The City Manager is responsible for disposal of all property in accordance with BIMC Sections 2-221 to 2-226. A completed Capital Asset Worksheet is required for all disposals.

**Depreciation:** On an annual basis after validating inventory, the Finance Director will calculate depreciation on each class of depreciable assets using the straight-line method and following GASB estimated useful lives. Estimated useful lives are as follows:

- Buildings 15-40 Years
- Towers, tanks, and pump stations 30 Years
- Infrastructure 10-50 Years
- Machinery and Equipment 3-15 Years
- Vehicles 2-15 years
- Furniture and Fixture 5 Years
- Other Improvements 2-30 Years

## Capital/Fixed Asset Worksheet

	New Asset Acquisition	Asset Transfer (Dept. to Dept.)	Asset Disposal (IAW BIMC)
Asset Number (Assigned by Finance Department)			
Description			
Quantity			
Model Number			
Serial Number			
Date Acquired			
Transfer Date			
From: (Department)			
To: (Department)			
Disposal Date			
Acquisition Cost			
Useful Life			
Asset Location/Department			
Department Head Signature			
Manager Signature			